



# Internal Revenue Service Congressional Liaison Newsletter for New York State

## IRS Updates The "Dirty Dozen" For 2003: Agency Warns of 12 Common Scams

In an update of an annual consumer alert, the Internal Revenue Service urged taxpayers to avoid falling victim to one of the "Dirty Dozen" tax scams. In the new 2003 ranking, several new scams have reached the top of the consumer watch list, including offshore banking and identity theft schemes.



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"With the tax season in full swing, we're seeing the traditional upswing in tax trickery," said IRS Acting Commissioner Bob Wenzel. "Year after year, con artists across the nation try pulling a fast one on honest taxpayers with different types of miracle tax solutions. Don't be fooled by the 'Dirty Dozen' and other misleading scams. There is no secret way to get out of paying taxes."

The IRS and other federal agencies are aggressively pursuing and successfully prosecuting promoters of these schemes and many of their clients for fraud and tax evasion. These can result in imprisonment, fines, and repayment of taxes owed with interest and penalties. Even innocent taxpayers involved in these schemes can face a staggering amount of back interest and penalties.

Check our Web Site at:  
[www.irs.gov](http://www.irs.gov)

Taxpayers who suspect tax fraud can report it to the IRS at 1-800-829-0433. More information on tax scams and schemes is available by visiting "The Newsroom" section of *IRS.gov*.

The IRS urges people to avoid these common schemes:

**1. OFFSHORE TRANSACTIONS.** Some people use offshore transactions to avoid paying United States income tax. Use of an offshore credit card, trust, or other arrangement to hide or underreport income or to claim false deductions on a federal tax return is illegal.

Through April 15, the IRS is offering people with improper offshore financial arrangements a chance to make things right. Eligible taxpayers who step forward will not face civil fraud and information return penalties. A taxpayer involved in these schemes who does not come forward now, however, will be subject to payment of taxes, interest, penalties and potential criminal

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"Building Relationships  
That Work"

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prosecution. People interested in participating in the program, called the Offshore Voluntary Compliance Initiative, can contact the IRS by calling 215-516-3537 (not toll-free).

**2. IDENTITY THEFT.** Identity thieves use someone’s personal data to steal his or her financial accounts, run up charges on the victim’s existing credit cards, apply for new loans, credit cards, services or benefits in the victim’s name, and even file fraudulent tax returns.

The IRS is aware of at least two recent identity theft scams involving taxes or the IRS. In one, tax preparers allegedly used information, such as Social Security numbers and financial information, from their clients’ tax returns to commit identity theft. In another, fraudsters sent bank customers fictitious bank correspondence and IRS forms in an attempt to trick them into disclosing their personal and banking data.

For taxpayers, it pays to be choosy about disclosing personal and financial information. The IRS encourages taxpayers to carefully select a reputable tax professional.

**3. PHONY TAX PAYMENT CHECKS.** In this scheme, con artists sell fictitious financial instruments that look like checks to pay a tax liability, mortgage, and other debts. The con artists may also counsel their clients to use a phony check to overpay their taxes so they can receive a refund from the IRS for the overpayment. The false checks, called sight drafts, are worthless and have no financial value. It is illegal to use these sight drafts to pay a tax liability or other debts.

**4. AFRICAN-AMERICANS GET A SPECIAL TAX REFUND.** Thousands of African-Americans have been misled by people offering to file for tax credits or refunds related to reparations for slavery. There is no such provision in the tax law. Some unscrupulous promoters have encouraged clients to pay them to prepare a claim for this refund, but the claims are a waste of money. Promoters of reparations tax schemes have been convicted and imprisoned. Taxpayers could face a \$500 penalty for filing such claims if they do not withdraw the claim.

In early 2002, the slavery reparations scam ranked as the No. 1 scheme on the Dirty Dozen list. Following a sweeping public outreach campaign and assistance from members of the Congressional Black Caucus and other organizations, the number of reparation scam claims fell sharply. Tens of thousands of claims were received in 2001, but the claims fell to less than 50 per week in 2002.

**5. NO TAXES WITHHELD FROM WAGES.** Illegal schemes are being promoted that instruct employers not to withhold federal income tax or employment taxes from wages paid to their employees. These schemes are based on an incorrect interpretation of tax law and have been refuted in court. A recent flurry of court actions has been taken against promoters of these schemes. Taxpayers who have concerns about their employer and employment taxes can get help by calling the IRS at 1-800-829-1040.

**6. IMPROPER HOME-BASED BUSINESS.** This scheme purports to offer tax “relief” but in reality is illegal tax avoidance. The promoters of this scheme claim that individual taxpayers can deduct most, or all, of their personal expenses as business expenses by setting up a bogus home-based business. The tax code firmly establishes that a clear business purpose and profit motive must exist in order to generate and claim allowable business expenses.

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**7. PAY THE TAX, THEN GET THE PRIZE.** The caller says you've won a prize, and all you have to do to get it is to pay the income tax due. Don't believe it. Someone who really wins a prize may need to make an estimated tax payment to cover the taxes that will be due at the end of the year. Any such payment goes to the IRS – not the caller. Whether the prize is cash, a car or a trip, a legitimate prize giver generally sends both the winner and the IRS a Form 1099 showing the total prize value that should be reported on the winner's tax return.

**8. FRIVOLOUS ARGUMENTS.** Frivolous arguments are false arguments that are unsupported by law. When a scheme promoter says "I don't pay taxes – why should you" or urges you to "untax yourself for \$49.95," beware. These scams are as old as snake oil, but people continue to be taken in. Now, these scheme's are on the Internet. The ads may say that paying taxes is "voluntary," but that's just plain wrong. The U.S. courts have continuously rejected this and other frivolous arguments. Unfortunately, hundreds of people across the country have paid for the "secret" of not paying taxes or have bought "untax packages." Later, they find out that following the advice contained in them can result in civil and/or criminal penalties. Numerous sellers of the bogus schemes have been convicted on criminal tax charges.

**9. SOCIAL SECURITY TAX SCHEME.** Taxpayers shouldn't fall victim to a scam offering refunds of the Social Security taxes they have paid during their lifetimes. The scam works by the victim paying a "paperwork" fee of \$100, plus a percentage of any refund received, to file a refund claim with the IRS. This hoax fleeces the victims for the up-front fee. The law does not allow such a refund of Social Security taxes paid. The IRS processing centers are alert to this hoax and have been stopping the false claims.

**10. "I CAN GET YOU A BIG REFUND...FOR A FEE!"** Refund scheme operators may approach someone wanting to "borrow" their Social Security number or give him or her a phony W-2 so it appears that the person qualifies for a big refund. They may promise to split the refund with that person, but the IRS catches most of these false refund claims before they go out. When one does go out, the participant usually ends up paying back the refund along with stiff penalties and interest. Two lessons to remember: 1) Anyone who promises someone a bigger refund without knowing their tax situation could be misleading them, and 2) Never sign a tax return without looking it over to make sure it's honest and correct.

**11. SHARE/BORROW EITC DEPENDENTS.** Unscrupulous tax preparers "share" one client's qualifying children with another client in order to allow both clients to claim the Earned Income Tax Credit. For example, one client may have four children but only needs to list two to get the maximum EITC. The preparer will list two children on the first client's return and the other two on another client's tax return. The preparer and the client "selling" the dependents split a fee. The IRS prosecutes the preparers of such fraudulent claims, and participating taxpayers could be subject to civil penalties.

**12. IRS "AGENT" COMES TO YOUR HOUSE TO COLLECT.** First, do not let anyone into your home unless they identify themselves to your satisfaction. IRS special agents, field auditors, and collection officers carry picture IDs and will normally try to contact you before they visit. If you think

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the person on your doorstep is an impostor, lock your door and call the local police. To report IRS impostors, call the Treasury Inspector General's Hotline at 1-800-366-4484.

Beyond the "Dirty Dozen," the IRS sees many more tax schemes. Some examples include home-based business scams, disabled access credit for pay phones, and a variety of improper abusive trusts. "The best advice for taxpayers is to remember the concept of 'buyer beware,'" Wenzel said. "Think carefully before paying for services or signing important documents and don't be fooled by outrageous promises. If something sounds too good to be true, it probably is."

## Charitable Contributions

The Internal Revenue Services advises that, when preparing to file your 2002 federal tax return, don't forget your contributions to charitable organizations. Your donations can add up to a nice tax deduction if you itemize on IRS Form 1040, Schedule A. Here are a few tips to help make sure your contributions pay off on your tax return.

To be deductible, contributions must be made to qualified organizations. Organizations can tell you if they are qualified and if donations to them are deductible. The IRS Web site at [www.irs.gov](http://www.irs.gov) also has an Exempt Organization search feature to help you see if an organization is qualified. IRS Publication 78, "Cumulative List of Organizations," is available online at [IRS.gov](http://IRS.gov) and in many public libraries.

Only contributions actually made during the tax year are deductible. Credit card charges and payments by check are deducted in the year they are given to the charity, even though you may not pay the credit card bill or have your bank account debited until the next year.

If your contributions entitle you to merchandise, goods, or services, including admission to a charity ball, banquet, theatrical performance, or sporting event, you can deduct only the amount that exceeds the fair market value of the benefit received.

Donations of stock or other property are usually valued at the fair market value of the property. For stocks and bonds with an active market, the fair market value is the average price between highest and lowest selling price on the valuation date.

Those who donate their cars may also claim only the fair market value of the car. The fair market value takes into account many factors, including the vehicle's condition. The fair market value may differ substantially from the car's "Blue Book" value. For vehicle donations, taxpayers must document both the car donation and its fair market value.

For a contribution of \$250 or more, you can claim a deduction only if you obtain a written acknowledgment from the qualified organization. A person donating property valued at more than \$5,000 must obtain a qualified written appraisal.

If you have questions about the deductibility of charitable contributions, call the IRS at 1-800-829-1040 or look on the IRS Web site at [IRS.gov](http://IRS.gov). IRS Publication 526, "Charitable Contributions," and Publication 561, "Determining the Value of Donated Property," are available on the Web site under "Forms and Publications" or by calling 1-800-TAX-FORM (1-800-829-3676).